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Supreme Court of the United States

OCTOBER TERM, 1948

No. 577

McEVOY COMPANY, *Petitioner*,

v.

BEN F. KELLEY AND WILLIAM L. KELLEY, D/B/A BEN F. KELLEY COMPANY, *Respondents*

PETITION FOR WRIT OF CERTIORARI

To the United States Court of Appeals for the Fifth Circuit,

AND BRIEF IN SUPPORT THEREOF

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ALPHA LAW BRIEF CO., HOUSTON

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PETITION FOR WRIT OF CERTIORARI

To the United States Court of Appeals for the Fifth Circuit

To the Honorable The Supreme Court
of the United States:

Your Petitioner respectfully shows:

Summary Statement of the Matter Involved

This is a civil action brought in the District Court of the United States for the Southern District of Texas by Ben F. Kelley and William L. Kelley, d/b/a Ben F. Kelley Company, Respondents, against McEvoy Company, Petitioner, for the recovery of annual minimum royalties under a patent license agreement as shown by the allegations of Respondents' Pe-

tition (R. 3 to 8). Petitioner defended on the ground that the license agreement contained no absolute obligation on its part to pay annual minimum royalties but provided that Respondents' only remedy in the event of such failure was to terminate the license agreement (R. 29 to 31).

The trial was by the Court without a jury and judgment was rendered in favor of Respondents against Petitioner for the recovery of such minimum royalties.

An appeal from said judgment was taken by Petitioner to the United States Court of Appeals, Fifth Circuit, which affirmed the judgment of the Trial Court.

The question involved on said appeal was whether under the terms of the license agreement sued upon Respondents' sole remedy for failure of Petitioner to pay annual minimum royalties was that of terminating the license agreement or whether Respondents were entitled to the recovery of a money judgment for such minimum royaylties. Two Circuit Judges decided that question adversely to Petitioner (R. 83 to 86) with a dissent by CIRCUIT JUDGE LEE (R. 86 to 93). Petitioner's Petition for Rehearing was overruled.

Jurisdictional Statement

It is contended that the Supreme Court has jurisdiction to review the judgment here in question under the provisions of Title 28, U.S.C., Section 2101 on the ground that the Circuit Court has decided an important question in direct contrariety to all other decisions involving the same question. The judgment of the Circuit Court of Appeals was rendered on December 14, 1948, and Petition for Rehearing was denied on January 8, 1949.

Question Presented

The question herein presented is whether under the terms

of the license agreement sued upon failure on the part of Petitioner to pay annual minimum royalties gave rise to the sole remedy on the part of Respondents of terminating such contract or whether recovery could be had in money for such minimum royalties.

Reasons Relied on For the Allowance of the Writ

By the decision of two Judges, the Circuit Court of Appeals has decided an important question directly contrary to all other decisions on the identical point.

WHEREFORE, your Petitioner prays that a Writ of Certiorari issue under the seal of this Court directed to the United States Court of Appeals for the Fifth Circuit commanding said Court to certify and send to this Court a full and complete transcript of the record and of the proceedings of the said Circuit Court had in the case numbered and entitled on its docket No. 12,295, McEvoy Company, Appellant, v. Ben F. Kelley and William L. Kelley, d/b/a Ben F. Kelley Company, Appellees, to the end that this cause may be reviewed and determined by this Court as provided for by the statutes of the United States, and that the judgment herein of said Circuit Court be reversed by the Court and for such further relief as to this Court may seem proper.

DATED February 17, 1949.

McEVOY COMPANY,

By_____

BEN CONNALLY,
Counsel for Petitioner

Supreme Court of the United States

OCTOBER TERM, 1948

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McEvoy Company, *Petitioner,*

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Ben F. Kelley and William L. Kelley,
d/b/a Ben F. Kelley Company,
Respondents

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

Opinions of Court Below

The majority opinion in the Court below is shown on pages 83 to 86 of the Record and the dissenting opinion on pages 86 to 93 of the Record.

Jurisdiction

The date of the judgment of the Circuit Court of Appeals is December 14, 1948, and the date of the order overruling Petitioner's Petition for Rehearing is January 8, 1949. The jurisdictional grounds are stated in the Petition for Writ of Error and are adopted and made a part of this brief.

Statement of the Case

The statement contained in the Petition for Writ of Certiorari is adopted and made a part of this brief.

Specification of Error

The Circuit Court of Appeals erroneously construed the license agreement as creating an absolute obligation on the part of Petitioner to pay annual minimum royalties when under the plain provisions of the agreement, the obligation was a qualified one and breach of it gave Respondents only the right to recapture the use of their patent by termination of the license agreement and did not provide for the recovery of money damages.

Argument

Point A

The Circuit Court of Appeals erroneously construed the license agreement as creating an absolute obligation on the part of Petitioner to pay annual minimum royalties when under the plain provisions of the agreement, the obligation was a qualified one and breach of it gave Respondents only the right to recapture the use of their patent by termination of the license agreement and did not provide for the recovery of money damages.

The license agreement upon which this suit is based contained no positive and absolute provision for the payment of annual minimum royalties by Petitioner, but clearly provided that in the event Petitioner failed to pay such royalties, as it did, Respondents' sole remedy would be the right to terminate the license agreement.

The applicable provisions with respect to the payment of annual minimum royalties are contained in Article II of the contract (R. 11 to 13) from which we quote:

> "Licensee agrees that to entitle it to retain the license herein granted, a minimum royalty as follows shall be payable:
>
> "(a) For the first three years royalties on fifty (50) such devices per year.
>
> "(b) Thereafter royalties on twenty-five (25) of such devices per year."
>
> * * *
>
> "Failure on the part of the Licensee to account to Licensors for the annual minimum royalty hereunder shall constitute a breach of this contract and be cause for termination hereof in the manner and subject to the provisions of paragraph X hereof, *and such termination shall be Licensors' sole remedy for such breach.*"

We submit that the construction of this contract is controlled by the cases of WING v. ANSONIA CLOCK CO. (Ct. of App. of N. Y.), 7 N.E. 621; ROSE v. IMBREY, 37 N.Y.S. (2d) 793; and CORBET v. MANHATTAN BRASS CO., 87 N.Y.S. 578.

In all of these cases, the Courts held that similar provisions in patent license agreements restricted the licensor's remedy to termination and did not permit the recovery of minimum royalties. JUDGE LEE in the dissenting opinion in the instant case remarked that "*Wing v. Ansonia Clock Co.*, 7 N.E. 621, decided by the Highest Court of New York State, is on all fours with the case presently before us."

The majority opinion of the Circuit Court of Appeals in the instant case impliedly held that had Respondents terminated the contract, termination would have been their sole remedy but that an opposite result should be reached because Petitioner terminated the contract.

No valid reason suggests itself why it should make any difference who terminated the contract; in any event the Licensor regained the use of his patent freed from the license agreement and that is the result for which the parties were contracting. The license agreement provides for Petitioner the right of termination and further provides that should the agreement be terminated by Petitioner, such termination shall not affect Licensees' obligation to pay any royalty that may have accrued up to the time of such termination, and the majority opinion contorted this language into creating an obligation which did not exist. We submit that the reasoning of the Circuit Court of Appeals was erroneous in the following respects:

1. Article XII of the contract which provides for the right of termination by Petitioner (R. 17) was not intended to and did not impose any affirmative obligations with respect to royalty payments. Those obligations insofar as annual minimum royalties are concerned are wholly contained in Article II of the contract (R. 11 to 13). Article II in expressing the obligation to pay minimum royalties unequivocably provides that the obligation is not absolute but rather, if the condition of payment is not met, Respondents' sole remedy is the right to terminate.

2. Article XII plainly says that termination by Petitioner shall not *affect* the royalty obligation. The Circuit Court of Appeals construed this Article as greatly affecting the obligation by transforming it from a conditional one with termination the sole consequence into an absolute one with the positive payment of the royalties required.

3. Article XII clearly restricts its scope to royalty "that may have accrued up to the time of termination." The only royalties which had accrued to date of termination were earned royalties, and there is no controversy respecting the payment of these. No minimum royalties had accrued to date of termination.

4. It is plain that Article XII was concerned only with earned royalties on actual production. If such Article is construed as imposing the affirmative obligation to pay minimum royalties, such Article is thrown into direct conflict with the plain provisions of Article II which says that termination shall be the sole remedy of Respondents upon failure of Petitioner to pay minimum royalties.

It is, therefore, respectfully submitted that this case is one calling for the exercise by this Court of its supervisory powers, by granting a writ of certiorari and thereafter reviewing the decision of the Circuit Court of Appeals.

BEN CONNALLY,
Attorney for Petitioner

GEORGE RICE,
Of Counsel